

**SCIENCE HILL INDEPENDENT  
SCHOOL DISTRICT**  
**AUDITED FINANCIAL STATEMENTS**

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**for the year ended June 30, 2016**

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## **INDEPENDENT AUDITOR'S REPORT**

Kentucky State Committee for School District Audits  
Members of the Board of Education  
Science Hill Independent Schools  
Science Hill, Kentucky 42553

### ***Report on the Financial Statements***

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Science Hill Independent Schools as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with auditing standards and the standards generally accepted in the United States of America applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements prescribed by the Kentucky State Committee for School District Audits Kentucky Public School Districts' Audit Contract and Requirements. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. I believe the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

### ***Opinions***

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters*****Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on page 3 and 4, budgetary comparison information and schedules of District's proportionate share of net pension liabilities and analysis and schedules of required contributions on pages 37 through 44 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

***Other Information***

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section and combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the combining and individual nonmajor fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, I have also issued my report dated September 19, 2016 on my consideration of the District's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

***Barry D. Daulton, CPA, PSC***

Somerset, Kentucky

September 19, 2016

**SCIENCE HILL INDEPENDENT SCHOOL DISTRICT**  
**Science Hill, Kentucky**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A)**  
**For the year ended June 30, 2016**  
**(Unaudited)**

Management of the Science Hill Independent School District (District) provides to readers and users of the accompanying financial statements an analysis and overview presentation of the Board's financial activities for the year ended June 30, 2016. Readers and users are encouraged to consider the information presented herein in conjunction with the audited financial statements and supplementary information contained within this report.

**Financial Highlights**

The beginning unreserved general fund balance for the District was \$ 515,268.

The District's outstanding bond principal is \$2,599,278 at the end of fiscal year 2016.

The majority of district revenues were derived from state sources (69%). Regular instruction, student support services, instructional support services and school and district administration account for (75%) of the District's expenditures. The District's remaining expenditures include pupil transportation (4%), maintenance and operations (12%) and debt service (3%).

The District's unrestricted operating fund (General Fund) had \$2,575,414 in revenues, excluding on-behalf payments from the Commonwealth. Those revenues consist mainly of ad valorem taxes, SEEK funding and utility tax receipts.

**District-Wide Financial Statements**

The accompanying district-wide financial statements are designed to provide readers and users with a generally broad descriptive overview of the Board's financial activities. The statements are similar in nature to private-sector (non-governmental) statements.

The Statement of Net Position contains information on all Board assets and liabilities. The difference between these two amounts is reported as net position. When considered historically, increases or decreases in net position may provide a general indication of overall improvement or deterioration of the District's financial condition. Net position reflects the District's investment in capital assets (land, buildings, improvements, vehicles, furniture and equipment) less any related debt used to acquire those assets that is still outstanding. Capital assets are used to provide services to students and are not available for future spending. Because the capital assets themselves cannot be used to liquidate the related liabilities, the resources needed to repay the debt must be provided from other sources.

In the Statement of Activities, changes in net position for the most recent fiscal year are presented. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Outlined in these financial statements are functions of the Board which are supported by local taxation and governmental activities. Governmental activities include, but are not limited to, instruction, support services, plant operation and maintenance and student transportation. Fixed assets and related debt are also supported by taxes and intergovernmental revenues.

### **Fund Financial Statements**

Fund financial statements present a related group of accounts which maintain resources for a specific activity or objective. The MUNIS system is a mandated uniform system and chart of accounts used by all Kentucky public school districts. Use of fund accounting ensures compliance with finance-related statutory requirements. Board funds are separated into three categories; governmental, proprietary and fiduciary. Fiduciary (or trust) funds, commonly known as activity funds, aid in student education and support. Fiduciary funds are support by outside activities such as fund-raising and ticket sales. The district has no proprietary funds other than food service operations. Governmental funds report all other Board activities.

### **Notes to Financial Statements**

Additional information necessary to better understand the district-wide financial statements is presented in the notes to financial statements on pages 18 through 28.

	<b><u>Condensed Comparative Data</u></b>	
	<b><u>FY 2015</u></b>	<b><u>FY 2016</u></b>
General fund revenues	\$ 3,366,528	\$ 3,309,946
General fund expenses	3,296,479	3,256,342
Cash (district-wide)	718,425	712,123
Land, building and fixed assets, net	5,437,824	5,219,764
Bond obligations	2,788,504	2,599,278
Fund balance	682,337	789,945

### **District-Wide Financial Analysis**

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$2,708,733 as of June 30, 2016. This reflects an increase of \$33,523 from 2015-2016.

The largest portion of the District's net position reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment) less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related

debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

<u>Net Position for the period ending</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Current Assets	829,764	728,124
Noncurrent Assets	5,219,674	5,437,824
Deferred Outflows	192,099	95,373
<b>Total Assets and Deferred Outflows</b>	<u>6,241,537</u>	<u>6,261,321</u>
Current Liabilities	194,197	190,833
Noncurrent Liabilities	3,315,159	3,315,278
Deferred Inflows	23,448	80,000
<b>Total Liabilities and Deferred Inflows</b>	<u>3,532,804</u>	<u>3,586,111</u>
<b>Net Position</b>		
Investment in Capital Assets (net of debt)	2,620,396	2,649,320
Restricted Fund balance	167,069	67,069
Unrestricted Fund Balance	(78,732)	(41,179)
<b>Total Net Position</b>	<u>2,708,733</u>	<u>2,675,210</u>
Governmental Revenues	3,901,912	3,952,571
Business Type Revenues	346,514	324,784
<b>Total Revenues</b>	<u>4,248,426</u>	<u>4,277,355</u>
Governmental Expenses	3,717,635	3,614,146
Business Type Expenses	497,268	316,551
<b>Total Expenses</b>	<u>4,214,903</u>	<u>3,930,697</u>
Change in Net Position	33,523	346,658
Change in Accounting Principle	-	(700,627)
Net Position Beginning	<u>2,675,210</u>	<u>3,029,179</u>
<b>Net Position Ending</b>	<u>2,708,733</u>	<u>2,675,210</u>

#### **General Fund Revenue/Expenditures**

The majority of the total General Fund revenue was derived from state revenue (74.18%).

The greatest amount of revenue (54.86%) was expended for instruction. Other significant expenditures were district administration (7.46%), plant operation and management (7.72%), instructional staff support which includes school libraries and district-wide instructional support staff (2.47%), school administrative support (6.2%), and student support services which includes health services, attendance services and guidance counseling (6.9%).



### **Special Revenue Fund Revenue/Expenditures**

The majority (51.89%) of the Special Revenue's revenue was derived from state sources with federal revenue making up (48.1%). The largest expenditure for the fund was for instruction, which was (60.3%) of the fund's total expenditures. Student support services was (15.8%) of the total expenditures.

### **Capital Outlay Fund and Building Fund Revenue/Expenditures**

The Capital Outlay Fund's revenue is received from the state funding program (SEEK). The Building Fund receives revenue from both state funding and local taxes. During this year the majority of these funds were transferred to the debt service fund for paying on bonds sold in previous years for new and renovated facilities. This year the state allowed the district to use a portion of Capital Outlay funds for approved operation expenses that would have been funded through General Fund.

### **Debt Service Fund Revenue/Expenditures**

The Debt Service Fund is used for paying debt service on bonds sold for new and renovated facilities. The fund receives a majority of its revenue from transfers from other funds primarily the Capital Outlay and Building Funds.

### **Food Service Fund Revenue/Expenditures**

The School Food Service Fund is an enterprise fund, which receives revenue from federal (75.6%), state (11.5%) and local (12.92%) sources. Expenditures for this fund are for food service staff, food, supplies and equipment.

### **Financial Management**

Interested readers and users, taxpayers, citizens and creditors are encouraged to contact Board administration with questions regarding this report or requests for additional information. The comments should be directed to Rick E. Walker, Superintendent or Mary Lois Wesley, Director of Business Operations at (606) 423-3341. The District mailing address is 6007 North Highway 27, Science Hill, Kentucky 42553.

**SCIENCE HILL INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF NET POSITION - DISTRICT WIDE**  
June 30, 2016

	GOVERNMENTAL ACTIVITIES	BUSINESS TYPE ACTIVITIES	TOTAL
<b>ASSETS</b>			
Cash and cash equivalents	\$ 683,919	\$ 28,204	\$ 712,123
Accounts receivable	106,026		106,026
Inventories for consumption		11,615	11,615
Capital assets:			
Land	51,625		51,625
Land improvements, net of deprec	59,566		59,566
Other capital assets, net of depreciation	4,958,399	150,084	5,108,483
<b>TOTAL ASSETS</b>	<u>\$ 5,859,535</u>	<u>\$ 189,903</u>	<u>\$ 6,049,438</u>
<b>DEFERRED OUTFLOWS</b>			
Deferred outflows related to pension expense	156,212	35,887	192,099
<b>TOTAL DEFERRED OUTFLOWS</b>	<u>\$ 156,212</u>	<u>\$ 35,887</u>	<u>\$ 192,099</u>
<b>TOTAL ASSETS AND DEFERRED OUTFLOW:</b>	<u><u>\$ 6,015,747</u></u>	<u><u>\$ 225,790</u></u>	<u><u>\$ 6,241,537</u></u>
<b>LIABILITIES</b>			
Short-term liabilities			
Accounts payable	\$ -	\$ -	\$ -
Long-term liabilities			
Due or payable within one year			
Bond obligations	194,197		194,197
Due or payable after one year			
Bond obligations	2,405,081	-	2,405,081
Net pension liability - CERS	740,064	170,014	910,078
<b>TOTAL LIABILITIES</b>	<u>\$ 3,339,342</u>	<u>\$ 170,014</u>	<u>\$ 3,509,356</u>
<b>DEFERRED INFLOWS</b>			
Deferred inflows related to pension expense	19,068	4,380	23,448
<b>TOTAL DEFERRED INFLOWS</b>	<u>19,068</u>	<u>4,380</u>	<u>23,448</u>
<b>TOTAL LIABILITIES AND DEFERRED INFLO</b>	<u><u>\$ 3,358,410</u></u>	<u><u>\$ 174,394</u></u>	<u><u>\$ 3,532,804</u></u>
<b>NET POSITION</b>			
Net investment in capital assets	2,470,312	150,084	2,620,396
Restricted for:			
Sick leave	167,069	-	167,069
Unrestricted	19,956	(98,688)	(78,732)
<b>TOTAL NET POSITION</b>	<u>\$ 2,657,337</u>	<u>\$ 51,396</u>	<u>\$ 2,708,733</u>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<u><u>\$ 6,015,747</u></u>	<u><u>\$ 225,790</u></u>	<u><u>\$ 6,241,537</u></u>

The accompanying notes are an integral part of these statements.

**SCIENCE HILL INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF ACTIVITIES**  
for the year ended June 30, 2016

FUNCTION/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION		
		CHARGES FOR SERVICES	OPERATING GRANTS CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS TYPE ACTIVITIES	TOTAL
Governmental activities							
Instructional	\$ 2,339,868	\$ -	\$ -	\$ -	\$ (2,339,868)	\$ -	\$ (2,339,868)
Student support services	286,023	-	-	-	(286,023)	-	(286,023)
Staff support services	115,178	-	-	-	(115,178)	-	(115,178)
District administration	307,530	-	-	-	(307,530)	-	(307,530)
School administration	124,546	-	-	-	(124,546)	-	(124,546)
Business support services	129,940	-	-	-	(129,940)	-	(129,940)
Plant operation and maintenance	400,901	-	-	-	(400,901)	-	(400,901)
Student transportation	162,612	-	-	-	(162,612)	-	(162,612)
Community service	40,745	-	-	-	(40,745)	-	(40,745)
Facility acquisition/construction	-	-	-	-	-	-	-
Pension expense(expense)	(97,707)	-	-	-	97,707	-	97,707
Debt service	126,570	-	-	218,571	92,001	-	92,001
Total governmental activities	3,936,206	-	-	218,571	(3,717,635)	-	(3,717,635)
Business-type activities							
Food service	497,268	42,683	261,854	-	-	(192,731)	(192,731)
Total business-type activities	497,268	42,683	261,854	-	-	(192,731)	(192,731)
Total school district	\$ 4,433,474	\$ 42,683	\$ 261,854	\$ 218,571	\$ (3,717,635)	(192,731)	(3,910,366)
General revenues:							
Taxes					760,610	-	760,610
State aid - formula grants					3,045,847	39,895	3,085,742
Investment earnings					2,904	2,082	4,986
Fund transfers					14,226	-	14,226
Miscellaneous					78,325	-	78,325
Total general and special revenues					3,901,912	41,977	3,943,889
Change in net position					184,277	(150,754)	33,523
Net position - July 1, 2015					2,473,060	202,150	2,675,210
Net position - June 30, 2016					\$ 2,657,337	\$ 51,396	\$ 2,708,733

**SCIENCE HILL INDEPENDENT SCHOOL DISTRICT**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**June 30, 2016**

	<u>GENERAL FUND</u>	<u>SPECIAL REVENUE</u>	<u>NON-MAJOR GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 748,332	\$ (64,413)	\$ -	\$ 683,919
Accounts receivable	41,613	64,413	-	106,026
<b>TOTAL ASSETS</b>	<u>\$ 789,945</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 789,945</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Accounts payable	-	-	-	-
<b>TOTAL LIABILITIES</b>	-	-	-	-
<b>FUND BALANCE</b>				
Restricted for:				
Accrued sick leave	167,069	-	-	167,069
Unassigned	622,876	-	-	622,876
<b>TOTAL FUND BALANCES</b>	<u>789,945</u>	<u>-</u>	<u>-</u>	<u>789,945</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 789,945</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 789,945</u>

The accompanying notes are an integral part of these statements.

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
WITH THE DISTRICT-WIDE STATEMENT OF NET POSITION  
June 30, 2016**

AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES IN THE STATEMENT  
OF NET POSITION ARE DIFFERENT BECAUSE:

Total governmental fund balance		\$ 789,945
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.		
Cost of capital assets	8,242,751	
Accumulated depreciation	<u>(3,173,161)</u>	5,069,590
Long-term liabilities (including bonds payable) are not due and payable in the current period and therefore are not reported as liabilities in the funds.		
Long term liabilities at year end consist of:		
Bonds payable		(2,599,278)
Net pension liability - CERS and related inflows / outflows		<u>(602,920)</u>
Total net position - governmental		<u>\$ 2,657,337</u>

The accompanying notes are an integral part of these statements.

**SCIENCE HILL INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**for the year ended June 30, 2016**

	GENERAL FUND	SPECIAL FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
<b>Revenues</b>				
Taxes	\$ 657,040	\$ -	\$ 103,570	\$ 760,610
Earnings on investments	2,904	-	-	2,904
State sources	2,571,677	235,764	238,406	3,045,847
Federal sources	-	218,571	-	218,571
Other sources	78,325	-	-	78,325
<b>Total revenues</b>	<b>3,309,946</b>	<b>454,335</b>	<b>341,976</b>	<b>4,106,257</b>
<b>Expenditures</b>				
Instructional	1,971,156	279,645	-	2,250,801
Student support services	209,546	73,357	-	282,903
Staff support services	100,265	1,043	-	101,308
District administration	305,914	-	-	305,914
School administration	124,546	-	-	124,546
Business support services	118,346	11,594	-	129,940
Plant operation/maintenance	316,847	-	-	316,847
Student transportation	86,399	57,676	-	144,075
Community service	-	40,745	-	40,745
Debt service	23,323	-	292,472	315,795
<b>Total expenditures</b>	<b>3,256,342</b>	<b>464,060</b>	<b>292,472</b>	<b>4,012,874</b>
<b>Excess (deficit) of revenues over expenditures</b>	<b>53,604</b>	<b>(9,725)</b>	<b>49,504</b>	<b>93,383</b>
<b>Other financing sources (uses):</b>				
Operating transfers in	63,729	9,725	291,259	364,713
Operating transfers out	(9,725)	-	(340,763)	(350,488)
<b>Total other financing sources (uses)</b>	<b>54,004</b>	<b>9,725</b>	<b>(49,504)</b>	<b>14,225</b>
<b>Net change in fund balances</b>	<b>107,608</b>	<b>-</b>	<b>-</b>	<b>107,608</b>
<b>Fund balances July 1, 2015</b>	<b>682,337</b>	<b>-</b>	<b>-</b>	<b>682,337</b>
<b>Fund balances June 30, 2016</b>	<b>\$ 789,945</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 789,945</b>

The accompanying notes are an integral part of these statements.

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE  
STATEMENT OF ACTIVITIES  
June 30, 2016**

Amounts reported for governmental activities in the statement of net position are different because:

Net changes - governmental funds:	\$ 107,608
Governmental funds report capital outlays as expenditures because they use current financial resources. However in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceeds capital outlay for the year.	(210,264)
District pension contributions are reported as expenditures in the governmental funds when made but are reported as deferred outflows in the Statement of Net Position because the reported Net Pension Liability is measured a year before pension expense.	
Change in net pension liability, pension expense, and related deferred inflows and outflows	97,707
Bond proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position.	
Principal paid	<u>189,226</u>
Changes in net position - governmental funds	<u>\$ 184,277</u>

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The accompanying notes are an integral part of these statements.

**SCIENCE HILL INDEPENDENT SCHOOL DISTRICT**  
**BALANCE SHEET**  
**NON-MAJOR GOVERNMENTAL FUNDS**  
**June 30, 2016**

	<u>CAPITAL OUTLAY</u>	<u>BUILDING FUND</u>	<u>CONSTRUCTION FUND</u>	<u>TOTAL</u>
<b>ASSETS</b>				
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -
TOTAL ASSETS	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>LIABILITIES</b>				
TOTAL LIABILITIES	-	-	-	-
<b>FUND BALANCES</b>				
Unrestricted	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of these statements.



**SCIENCE HILL INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**NON-MAJOR GOVERNMENTAL FUNDS**  
**for the year ended June 30, 2016**

	<u>CAPITAL OUTLAY</u>	<u>BUILDING FUND</u>	<u>DEBT SERVICE</u>	<u>TOTAL NON-MAJOR GOV'T FUNDS</u>
REVENUES				
Taxes	\$ -	\$ 103,570	\$ -	\$ 103,570
State sources	<u>40,522</u>	<u>196,671</u>	<u>1,213</u>	<u>238,406</u>
Total revenues	40,522	300,241	1,213	341,976
EXPENDITURES				
Debt service	<u>-</u>	<u>-</u>	<u>292,472</u>	<u>292,472</u>
Total expenditures	<u>-</u>	<u>-</u>	<u>292,472</u>	<u>292,472</u>
Excess (deficit) of revenues over expenditures	<u>40,522</u>	<u>300,241</u>	<u>(291,259)</u>	<u>49,504</u>
Other financing sources (uses):				
Operating transfers out	(40,522)	(300,241)	-	(340,763)
Operating transfers in			<u>291,259</u>	<u>291,259</u>
Total other financing sources (uses)	<u>(40,522)</u>	<u>(300,241)</u>	<u>291,259</u>	<u>(49,504)</u>
Net change in fund balance	-	-	-	-
Fund balance July 1, 2015	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance June 30, 2016	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of these statements.

**SCIENCE HILL INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF NET POSITION - PROPRIETARY FUNDS**  
June 30, 2016

	<b>ENTERPRISE FUNDS</b>
	<b><u>FOOD SERVICE</u></b>
<b>ASSETS</b>	
Current assets	
Cash and cash equivalents	\$ 28,204
Accounts receivable	-
Inventories for consumption	<u>11,615</u>
Total current assets	39,819
Noncurrent assets	
Buildings and improvements	243,882
Furniture and equipment	104,263
Accumulated depreciation	<u>(198,061)</u>
Total noncurrent assets	<u>\$ 150,084</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 189,903</u></b>
<b>DEFERRED OUTFLOWS</b>	
Deferred outflows related to pension expense	35,887
<b>TOTAL DEFERRED OUTFLOWS</b>	<b><u>\$ 35,887</u></b>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS</b>	<b><u>\$ 225,790</u></b>
<b>LIABILITIES</b>	
Total current liabilities	\$ -
Total noncurrent liabilities	-
Net pension liability - CERS	<u>170,014</u>
<b>TOTAL LIABILITIES</b>	<b><u>\$ 170,014</u></b>
<b>DEFERRED INFLOWS</b>	
Deferred inflows related to pension expense	4,380
<b>TOTAL DEFERRED INFLOWS</b>	<b><u>\$ 4,380</u></b>
<b>TOTAL LIABILITIES AND DEFERRED INFLOWS</b>	<b><u>\$ 174,394</u></b>
<b>NET POSITION</b>	
Invested in assets, net of debt	150,084
Unrestricted	<u>(98,688)</u>
<b>TOTAL NET POSITION</b>	<b><u>\$ 51,396</u></b>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b><u>\$ 225,790</u></b>

The accompanying notes are an integral part of these statements.

**SCIENCE HILL INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**PROPRIETARY FUNDS**  
for the year ended June 30, 2016

	<b>ENTERPRISE FUNDS</b>
	<b>FOOD SERVICE</b>
<b>OPERATING REVENUES</b>	
Lunchroom sales	\$ 42,683
Total operating revenues	42,683
<b>OPERATING EXPENSES</b>	
Food service operations	358,761
Total operating expenses	358,761
Operating income (loss)	(316,078)
<b>NONOPERATING REVENUES (EXPENSES)</b>	
Interest on investments	2,082
Federal grants	261,854
State grants	39,895
Fund transfers	-
Net pension expense	(138,507)
Total nonoperating revenues	165,324
Change in net position	(150,754)
Net position July 1, 2015	202,150
Net position June 30, 2016	\$ 51,396

The accompanying notes are an integral part of these statements.

**SCIENCE HILL INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS**  
for the year ended June 30, 2016

**Cash flows from operating activities:**

Cash received from lunchroom sales	\$ 42,683
Cash received from federal and state reimbursements	301,749
Cash payments to employees for services	(155,364)
Cash payments to suppliers	(185,024)
Operating transfers	<u>(14,226)</u>

Net cash provided by operating activities	(10,182)
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**Cash flows from investing activities**

Interest Income	<u>2,082</u>
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Net cash provided by investing activities	<u>2,082</u>
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Net increase in cash equivalents	(8,100)
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Cash and cash equivalents July 1, 2015	<u>36,304</u>
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Cash and cash equivalents June 30, 2016	<u><u>\$ 28,204</u></u>
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**Reconciliation of Operating Income to Net Cash  
Provided by Operating Activities:**

Operating income	\$ (316,078)
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Non-operating revenue	303,831
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Depreciation	7,886
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**Effect of Increases and Decreases in Current  
Assets and Liabilities:**

Accounts receivable	
Inventory	<u>(3,739)</u>

Net cash provided by operating activities	<u><u>\$ (8,100)</u></u>
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**Schedule of non-cash transactions**

Donated commodities	<u><u>\$ 20,478</u></u>
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The accompanying notes are an integral part of these statements.

**SCIENCE HILL INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF NET POSITION - FIDUCIARY FUNDS**  
**June 30, 2016**

	<u>Student Activity Funds</u>
ASSETS	
Cash and cash equivalents	<u>\$     19,724</u>
TOTAL ASSETS	<u><u>19,724</u></u>
LIABILITIES	
Due to student groups	<u>19,724</u>
TOTAL LIABILITIES	<u><u>\$     19,724</u></u>

The accompanying notes are an integral part of these statements.

**SCIENCE HILL INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2016**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**REPORTING ENTITY**

The Science Hill Board of Education (Board), a five-member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Science Hill Independent School District (District). The Board receives funding from local, state and federal government sources and must comply with the commitment requirements of these funding source entities. However, the Board is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards, as Board members are elected by the public and have decision-making authority, the power to designate management and the responsibility to develop policies which may influence operations and primary accountability for fiscal matters.

The Board, for financial purposes, includes all the funds and account groups relevant to the operation of the Science Hill Independent School District. The financial statements presented herein do not include funds of groups and organizations which, although associated with the school system, have not originated within the Board itself such as booster organizations, Parent-Teacher Associations, etc.

The financial statements of the Board include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding and appointment of the respective governing board.

The accounting policies of the Science Hill Independent School District substantially comply with the rules prescribed by the Kentucky Department of Education for local school districts and generally accepted accounting principles prescribed by the Governmental Accounting Standards Board (GASB).

**District-Wide and Fund Financial Statements**

The statement of net position and the statement of activities are district-wide financial statements. They report information on all of the District's nonfiduciary activities with interfund activities removed. Governmental activities include programs supported primarily by taxes, state funding and allocations and other intergovernmental revenues.

Fund financial statements provide reports on the financial condition and results of operations for three fund categories – governmental, proprietary and fiduciary. Because the resources in the fiduciary funds cannot be used for District operations, they are not included in the district-wide statements.

**SCIENCE HILL INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS, continued**  
**June 30, 2016**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

**Fund Accounting**

The District maintains its accounting records in accordance with the principles of "fund" accounting. Fund accounting is a concept developed to meet the needs of governmental entities in which legal or other restraints require the recording of specific receipts and disbursements. The transactions of each fund are reflected in a self-balancing group of accounts which stands separate from the activities reported in other funds. A description along with the restrictions associated with each class of funds are as follows:

**I. Governmental Fund Types**

- A. The General Fund is the primary operating fund of the District. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use.
- B. The Special Revenue Fund accounts for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balance are returned to the grantor at the close of specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally funded grant programs are identified in the Schedule of Federal Financial Assistance included in this report. Accounts receivable in the Special Revenue Fund represent amounts due to the District through various grant agreements. Conversely, deferred revenues represent funds received by the District not yet spent under grant agreements.
- C. Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Funds).
  - 1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds (unless authorized for retention in the General Fund) and is restricted for use in financing projects identified in the district's facility plan.
  - 2. The Facility Support Program of Kentucky (FSPK) Fund accounts for funds generated by the building tax levy required to participate in the Kentucky School Facilities Construction Commission's funding and state matching funds, where applicable. Funds may be used for projects identified in the district's facility plan.

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS, continued  
June 30, 2016

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

3. The Technology Fund accounts for the Kentucky Education Technology System (KETS) allocation and local district matching funds restricted for the purchase of technology consistent with the District's approved technology plan.

II. Debt Service Fund

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related costs and for the payment of interest on general obligation notes payable, as required by Kentucky Law.

III. Proprietary Funds (Enterprise Fund)

The School Food Service Fund is used to account for school food service activities, including the National School Lunch and Breakfast Programs, which are conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts for in-kind contribution of commodities from the USDA are recorded only in the proprietary Statement of Revenues, Expenses, and Changes in Fund Balance.

IV. Fiduciary Fund Type

The Activity Fund consists of Agency funds and accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with Uniform Program of Accounting for School Activity Funds.

V. Property Taxes

The District's property taxes are levied each year on the assessed value listed as of the prior January 1 for all real and business tangible property located in the District. Tax rates assessed were 63.3 cents per one hundred dollars of assessed value for real estate and tangible personal property. Motor vehicle taxes are assessed at 53.2 cents per one hundred dollars of assessed value. Property taxes collected are recorded as revenues in the fund for which they were levied.

Budgetary Process

Budgetary Basis of Accounting: The District's budgetary process accounts for certain transactions on a basis other than GAAP. During the budgetary process, revenues are projected in cash amounts to be received and expenditures are projected in cash amounts to be paid. Under GAAP, revenues and expenditures are recorded when susceptible to accrual.



**SCIENCE HILL INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS, continued**  
**June 30, 2016**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The district-wide financial statements use the economic resources measurement focus and the accrual basis of accounting, as do the proprietary and fiduciary funds. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied.

Governmental fund financial statements use the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets, current liabilities and fund balances are included on the balance sheet. The modified accrual basis of accounting recognizes revenues in the accounting period in which they become both measurable and available and it recognizes expenditures in the accounting period in which the fund liability is incurred, if measurable.

Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until they are actually received. Investment earnings are recorded as earned, since they are both measurable and available.

Cash and Cash Equivalents

The Board considers demand deposits, money market funds, and other investments with an original maturity of 90 days or less to be cash equivalents.

Inventories

Supplies and materials are charged to expenditures when purchased, with the exception of the Proprietary Funds, which record inventory using the accrual basis of accounting.

Encumbrances

Encumbrances are reported as a reservation of the fund balance. They are not reported as disbursements until paid.

Payroll

District employees are paid once monthly throughout the calendar year. Payroll checks for the summer months were processed prior to June 30, 2016. The cash balances on June 30, 2016 have been reduced by the outstanding payroll checks.

**SCIENCE HILL INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS, continued**  
**June 30, 2016**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

**Estimates**

Preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Fund Balances**

Restricted fund balances arise from external constraints (debt covenants, regulations, constitutional provisions, etc.) Committed fund balances are imposed by formal actions of the Board. Assigned fund balances are intended by the Board to be used for specific purposes, but are not formally restricted or committed. Unassigned fund balances are the residual amounts that are neither restricted, committed nor assigned for any specific purpose.

**Changes in Accounting Principle**

Effective July 1, 2014, the District was required to adopt Governmental Accounting Standards Board (GASB) Statement No. 68, "Accounting and Financial Reporting for Pensions" (GASB 68). GASB 68 replaced the requirements of GASB 27, "Accounting for Pensions by State and Local Governmental Employers" and GASB 50 "Pension Disclosures", as they relate to government pensions through pension plans administered as trust or similar arrangements that meet certain criteria. GASB 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability to more comprehensively and comparably measure the annual costs of pension benefits. Cost-sharing governmental employers, such as the District, are required to report a net pension liability, pension expense and pension-related assets and liabilities based on their proportionate share of the collective amounts for all governments in the plan. GASB 68 required retrospective application. Since the District only presents one year of financial information, the beginning net pension was adjusted in fiscal year 2015 to reflect the retrospective application.

**NOTE B - CASH AND CASH EQUIVALENTS**

At year end, the carrying amount of the District's cash and cash equivalents was \$845,086. Carrying amounts do not reflect deposits in transit or outstanding checks. Of the total cash balance, \$250,000 was covered by Federal Depository Insurance, with the remainder covered by collateral held by the pledging banks' trust departments in the District's name.

Cash and cash equivalents at June 30, 2016 exclusive of activity and debt service funds, consisted of the following:

Cumberland Security Bank	Operating Account	\$ 712,123
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**SCIENCE HILL INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS, continued**  
**June 30, 2016**

**NOTE C - BONDED DEBT AND LEASE OBLIGATIONS**

The amount shown in the accompanying financial statements as lease obligations represents the District's future obligations to make lease payments relating to the bonds issued by the Science Hill Independent School District and the Kentucky School Facilities Construction Commission.

The District, through the General Fund, including utility taxes and the SEEK Capital Outlay Fund, is obligated to make lease payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Science Hill Independent School District Finance Corporation and the Kentucky School Facilities Construction Commission to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

At July 1, 2015 total indebtedness amounted to \$ 2,788,504. With no additions to long-term debt and timely principal and interest reductions, indebtedness at June 30, 2016 totaled \$ 2,599,278. The tables below set forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues and the addition and deduction of long-term debt for the current year.

Year	2006R		2007		2011		Annual Totals
	Principal	Interest	Principal	Interest	Principal	Interest	
2017	10,000	21,330	89,197	75,022	95,000	808	291,357
2018	50,000	20,145	149,167	71,677			290,989
2019	55,000	18,071	154,135	66,009			293,215
2020	55,000	15,899	164,102	60,152			295,153
2021	50,000	13,825	174,068	53,916			291,809
2022	55,000	11,751	179,033	47,301			293,085
2023	60,000	9,480	183,995	40,409			293,884
2024	65,000	7,011	188,957	33,325			294,293
2025	70,000	4,345	193,917	26,050			294,312
2026	75,000	1,481	198,875	18,584			293,940
2027			283,832	10,928			294,760
	<u>\$545,000</u>	<u>\$123,338</u>	<u>\$ 1,959,278</u>	<u>\$503,373</u>	<u>\$ 95,000</u>	<u>\$ 808</u>	<u>\$ 3,226,797</u>

**SCIENCE HILL INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS, continued**  
**June 30, 2016**

**NOTE C - BONDED DEBT AND LEASE OBLIGATIONS, continued**

Science Hill Independent School District  
Addition and Deduction for Long Term Debt  
June 30, 2016

	Beginning Balance 7/1/2015	Plus Additional Debt	Less Principal Payments	Ending Balance 6/30/2016
Bond Issue				
2006R	555,000	-	(10,000)	545,000
2007	2,038,504	-	(79,226)	1,959,278
2011	195,000	-	(100,000)	95,000
	<u>2,788,504</u>	<u>-</u>	<u>(189,226)</u>	<u>2,599,278</u>

**NOTE D - RETIREMENT PLANS**

**Kentucky Teacher's Retirement**

The District's employees are provided with two pension plans, based on each position's college degree requirement. The County Employees Retirement System (CERS) covers employees whose position does not require a college degree or teaching certification. The Kentucky Teachers Retirement System (KTRS) covers positions requiring teaching certification or otherwise requiring a college degree.

**General Information About the County Employees Retirement System (CERS)**

*Plan description* – Employees whose positions do not require beyond a high school diploma are covered by the CERS, a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement System, an agency of the Commonwealth of Kentucky. Under the provision of the Kentucky Revised Statute (KRS) Section 61.645, the Board of Trustees of the Kentucky Retirement administers CERS and has authority to establish and amend benefit provisions. The Kentucky Retirement System issues a publicly available financial report that included financial statements and required supplementary information for CERS. That report may be obtained from <http://kyret.ky.gov>.

*Benefits provided* – CERS provides retirement, health insurance, death and disability benefits to Plan employees and beneficiaries. Employees are vested in the plan after five years' service. For retirement purposes, employees are grouped into three tiers, based on hire date:

**SCIENCE HILL INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS, continued**  
**June 30, 2016**

**NOTE D - RETIREMENT PLANS, continued**

Tier 1	Participation date	Before September 1, 2008
	Unreduced retirement	27 years' service or 65 year old
	Reduced retirement	At least 5 years of service and 55 years old At least 25 years of service and any age
Tier 2	Participation date	September 1, 2008 - December 31, 2013
	Unreduced retirement	At least 5 years' service and 65 years old Or age 57+ and sum of service years plus age = 87
	Reduced retirement	At least 10 years' service and 60 years old
Tier 3	Participation date	After December 31, 2013
	Unreduced retirement	At least 5 years' service and 65 years old Or age 57+ and sum of service years plus age = 87
	Reduced retirement	Not available

Cost of living adjustments are provided at the discretion of the Kentucky General Assembly. Retirement is based on a factor of the number of years of service and hire date multiplied by the average of the highest five years' earnings. Reduced benefits are based on factors of both components. Participating employees become eligible to receive the health insurance benefit after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are \$5,000 in lump sum. Five years of service is required for death benefits prior to retirement and the employees must have suffered a duty-related death. The decedent's beneficiary will receive the higher of the normal death benefit and \$10,000 plus 25% of the decedent's monthly final rate of pay, and any dependent child will receive 10% of the decedent's monthly final rate of pay up to 40% for all dependent children. Five years of service is required for nonservice-related disability benefits.

*Contributions* - Required contributions by the employee are based on the tier:

	<u>Required Contribution</u>
Tier 1	5%
Tier 2	5% + 1% for insurance
Tier 3	5% + 1% for insurance

The District matches at a rate of 17.76% of the employee's total covered compensation. The District's matching contributions total \$84,606 for the year ended June 30, 2016.

**SCIENCE HILL INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS, continued**  
**June 30, 2016**

**NOTE D - RETIREMENT PLANS, continued**

**General Information about the Teachers' Retirement System of the Commonwealth of Kentucky (KTRS)**

*Plan description* – The District's teaching certified employees and other employees whose positions require at least a college degree are provided pensions through KTRS – a cost-sharing multiple-employer defined benefit pension plan with a special funding situation established to provide retirement annuity plan coverage for local school districts and other public educational agencies in the Commonwealth of Kentucky. KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). KTRS is a blended component unit of the Commonwealth of Kentucky and therefore is included in the Commonwealth's financial statements. KTRS issues a publicly available financial report that can be obtained at [http://www.ktrs.ky.gov/05\\_publications/index.htm](http://www.ktrs.ky.gov/05_publications/index.htm).

*Benefits provided* – For employees who have established an account in a retirement system administered by the Commonwealth prior to July 1, 2008, employees become vested when they complete five (5) years of credited service. To qualify for monthly retirement benefits, payable for life, employees must either:

- 1) Attain age fifty-five (55) and complete five (5) years of Kentucky service, or
- 2) Complete 27 years of Kentucky service.

Employees that retire before age 60 with less than 27 years of service receive reduced retirement benefits. Non-university employees with an account established prior to July 1, 2002 receive monthly payments equal to 2% (service prior to July 1, 1983) and 2.5% (service after July 1, 1983) of their final average salaries for each year of credited service. New employees (including second retirement accounts) after

July 1, 2002 will receive monthly benefits equal to 2% of their final average salary for each year of service if, upon retirement, their total service is less than ten years. New employees after July 1, 2002 who retire with ten or more years of total service will receive monthly benefits equal to 2.5% of their final average salary for each year of service, including the first ten years. In addition, employees who retire July 1, 2004 and later with more than 30 years of service will have their multiplier increased for all years over 30 from 2.5% to 3% to be used in their benefit calculation. Effective July 1, 2008, the system has been amended to change the benefit structure for employees hired on or after that date.

Final average salary is defined as the member's five highest annual salaries for those with less than 27 years service. Employees at least age 55 with 27 or more years of service may use their three highest annual salaries to compute the final average salary. KTRS also provides disability for vested employees at the rate of 60% of the final average salary. A life insurance benefit, payable upon the death of a member, is \$2,000 for active contributing employees, and \$5,000 for retired or disabled employees.

**SCIENCE HILL INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS, continued**  
**June 30, 2016**

**NOTE D - RETIREMENT PLANS, continued**

Cost of living increases are 1.5% annually. Additional ad hoc increases and any other benefit amendments must be authorized by the General Assembly.

*Contributions-* Contribution rates are established by KRS. Non-university members are required to contribute 12.105% of their salaries to the System. The Commonwealth of Kentucky, as a non-employer contributing entity, pays matching contributions of the amount 13.105% of salaries for local school district employees hired before July 1, 2008 and 14.105% for those hired after July 1, 2008. For local school district members whose salaries are federally funded, the employer contributes 15.355% of salaries. If an employee leaves covered employment before accumulating five (5) years of credited service, accumulated employee pension contributions plus interest are refunded to the employee upon the member's request.

**Medical Insurance Plan**

*Plan description-* In addition to the pension benefits described above, Kentucky Revised Statue 161.675 requires KTRS to provide post-retirement healthcare to eligible members and dependents. The KTRS Medical Insurance benefit is a cost-sharing multiple employer defined benefit plan. Changes made to the medical plan may be made by the KTRS Board of Trustees, the Kentucky Department of Employee Insurance and the General Assembly.

To be eligible for medical benefits, the member must have retired either for service or disability. The KTRS Medical Insurance Fund offers coverage to members under the age of 65 through the Kentucky Employees Health Plan administered by the Kentucky Department of Employee Insurance. Once retired members and eligible spouses attain age 65 and are Medicare eligible, coverage is obtained through the KTRS Medicare Eligible Health Plan.

*Funding Policy -* In order to fund the post-retirement healthcare benefit, six percent (6.0%) of the gross annual payroll of members before July 1, 2008 is contributed. Three percent (3.0%) is paid by member contributions and three-quarter percent (.75%) from state appropriation and two and one-quarter percent (2.25%) from the employer. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan.

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

At June 30, 2016, the Science Hill Independent School District reported a liability for its proportionate share of the net pension liability for CERS. The District did not report a liability for the District's proportionate share of the net pension liability for KTRS because the Commonwealth of Kentucky provides the pension support directly to KTRS on behalf of the District. The amount recognized by the

**SCIENCE HILL INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS, continued**  
**June 30, 2016**

**NOTE D - RETIREMENT PLANS, continued**

District as its proportionate share of the net pension liability, the related State support and the total portion of the net pension liability that was associated with the District were as follows:

District's proportionate share of the CERS net pension liability	\$ <u>910,078</u>
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State's proportionate share of the net pension liability associated with the District	\$ <u>14,162,771</u>
--	----------------------

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2015, the District's portion was .021167 percent.

For the year ended June 30, 2016 the District recognized pension expense of \$40,800 related to CERS.

The District reported approximate deferred outflows of resources and deferred inflows of resources related to pension expense from the following sources:

	Deferred Outflows of <u>Resources</u>	Deferred Inflows of <u>Resources</u>
Differences between expected and actual experience	\$ 7,563	\$ -
Changes of assumptions	91,771	-
Net difference between projected and actual earning on pension plan investments	8,158	-
Changes in proportion and differences between District Contributions and proportionate share of contributions	-	23,448
District contributions subsequent to the measurement date	<u>84,606</u>	<u>-</u>
Total	<u>\$ 192,098</u>	<u>\$ 23,448</u>



**SCIENCE HILL INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS, continued**  
**June 30, 2016**

**NOTE D - RETIREMENT PLANS, continued**

\$192,098 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows related to pensions will be recognized in pension expense as follows: (23,448/5)

Year ended June 30:

2016	4,690
2017	4,690
2018	4,690
2019	4,690
2020	4,688

*Actuarial assumptions* – The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	<u>CERS</u>	<u>KTRS</u>
Inflation	3.50%	3.2%
Projected salary increases	4.50%	4.0-8.2%
Investment rate of return, net of investment expense & inflation	7.75%	7.50%

For CERS, mortality rates for the period after service retirement are according to the 1983 Group Annuity Mortality Table for all retired employees and beneficiaries as of June 30, 2006, and the 1994 Group Annuity Mortality Table for all other employees. The Group Annuity Mortality Table set forward five years is used for the period after disability retirement.

For KTRS, mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on a projection of Scale AA to 2020 with a setback of one year for females. The last experience study was performed in 2011, and the next experience study is scheduled to be conducted in 2016.

For CERS, the long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years. The most recent analysis, performed for the period covering fiscal years 2005 through 2008, is outlined in a report dated August 25, 2009. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by

**SCIENCE HILL INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS, continued**  
**June 30, 2016**

**NOTE D - RETIREMENT PLANS, continued**

the target asset allocation percentage and then adding expected inflation. The capital markets assumptions developed by the investment consultant are intended for use over a ten-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

For KTRS, the long-term expected rate of return on pension plan investments was determined using a long-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by KTRS's investment consultant, are summarized in the following table:

	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U.S. Equity	45.0%	6.4%
Non U.S. Equity	17.0%	6.5%
Fixed Income	24.0%	1.6%
High Yield Bonds	4.0%	3.1%
Real Estate	4.0%	5.8%
Alternatives	4.0%	6.8%
Cash	<u>2.0%</u>	1.5%
Total	<u>100.%</u>	

*Discount rate* – For CERS, the discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from plan employees and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 7.75%. The long-term investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

For KTRS, the discount rate used to measure the total pension liability was 4.88%. The projection of cash flows used to determine the discount rate assumed that plan member contribution rates, and the employer contributions will be made at statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit

**SCIENCE HILL INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS, continued**  
**June 30, 2016**

**NOTE D - RETIREMENT PLANS, continued**

payments of current plan employees until the 2039 plan year. Therefore, the long-term expected rate of return on pension plan investments was applied to all period of projected benefit payments through 2038, and a municipal bond index rate of 3.82% was applied to all periods of projected benefit payments after 2038. The Single Equivalent Interest Rate that discounts the entire projected benefit stream to the same amount as the sum of the present values of the two separate benefit payments streams was used to determine the total pension liability.

*Sensitivity of CERS and KTRS proportionate share of net pension liability to changes in the discount rate* – The following table presents the District's net pension liability calculated using the discount rates selected by each pension system, as well as what the District's net pension liability would be if it were calculated using a discount rate that is one percentage point lower, or one percentage point higher than the current rate:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
CERS	6.75%	7.75%	8.75%
District's proportionate share of net pension liability	1,161,831	910,078	694,479
KTRS	3.88%	4.88%	5.88%
District's proportionate share of net pension liability	-	-	-

*Pension plan fiduciary net positions* – Detailed information about the pension plan's fiduciary net position is available in the separately issued financial reports of both CERS and KTRS.

**NOTE E - CONTINGENCIES**

The District receives funding from Federal, State and Local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if based on the grantors' review the funds are considered not to have been used for the intended purpose, the grantors may request a refund of monies advanced, or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

**SCIENCE HILL INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS, continued**  
**June 30, 2016**

**NOTE F - INSURANCE AND RELATED ACTIVITIES**

The District is exposed to various forms of loss of assets associated with the risks of fire, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas are covered through the purchase of commercial insurance. The District has purchased certain policies which are retrospectively rated which includes worker's compensation insurance.

**NOTE G - LUNCHROOM ACCOUNT/COMMODITIES**

The Lunchroom Account keeps a current monthly inventory of the school in the Food Service Director's office at the Science Hill Independent Board of Education. The Food Service Director has filed timely all required reports and requests for reimbursement.

**NOTE H - RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees; and natural disasters. The District has obtained insurance for workers' compensation, errors and omissions, and general liability coverage.

Past and present members of Kentucky School Boards Insurance Trust (KSBIT) were required to pay additional, retroactive premiums to cover a \$60 million deficit in the Trust's general liability and workers' compensation pools. The District opted to pay their assessment in three annual installments, with the first payment being due in August 2014.

The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss.

**NOTE I - CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2016 is detailed on the following page.

**SCIENCE HILL INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2016**

**CAPITAL ASSET NOTE DISCLOSURE**

	<u>BEGINNING BALANCE</u>	<u>ADDITIONS</u>	<u>RETIREMENTS</u>	<u>ENDING BALANCE</u>
<b>GOVERNMENTAL ACTIVITIES</b>				
Land and improvements	325,980	-	-	325,980
Buildings and improvements	6,856,654	-	-	6,856,654
Technology equipment	311,384	-	-	311,384
Vehicles	548,588	-	-	548,588
General equipment	200,145	-	-	200,145
Totals at historical cost	8,242,751	-	-	8,242,751
Less accumulated depreciation for:				
Land and improvements	202,042	12,748	-	214,790
Buildings and improvements	1,958,008	140,286	-	2,098,294
Technology equipment	281,755	24,673	-	306,428
Vehicles	369,780	18,316	-	388,096
General equipment	151,312	14,241	-	165,553
Total accumulated depreciation	2,962,897	210,264	-	3,173,161
<b>GOVERNMENTAL ACTIVITIES CAPITAL NET</b>	<b>\$ 5,279,854</b>	<b>\$ (210,264)</b>	<b>\$ -</b>	<b>\$ 5,069,590</b>
<b>PROPRIETARY ACTIVITIES</b>				
Buildings and improvements	243,882	-	-	243,882
Technology equipment	3,090	-	(3,090)	-
General equipment	104,263	-	-	104,263
Totals at historical cost	351,235	-	(3,090)	348,145
Less accumulated depreciation for:				
Buildings and improvements	109,747	4,877	-	114,624
Technology equipment	3,090	-	(3,090)	-
General equipment	80,428	3,009	-	83,437
Total accumulated depreciation	193,265	7,886	(3,090)	198,061
<b>PROPRIETARY ACTIVITIES CAPITAL NET</b>	<b>\$ 157,970</b>	<b>\$ (7,886)</b>	<b>\$ -</b>	<b>150,084</b>

**DEPRECIATION EXPENSE CHARGES TO GOVERNMENTAL FUNCTIONS AS FOLLOWS:**

Instructional	\$ 89,067
Student support services	3,120
Staff support services	13,870
District administration	1,616
Business support services	-
Plant operation/maintenance	84,054
Student transportation	18,537
Total	<u>\$ 210,264</u>

**SCIENCE HILL INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS, continued**  
**June 30, 2016**

**NOTE J - ON BEHALF PAYMENTS**

The District receives on-behalf payments from the State of Kentucky from items including retirement and insurance. The amounts received for the fiscal year ended June 30, 2016 was \$734,532. These payments were recorded as follows:

General Fund	\$ 697,097
Debt Service	1,213
Food Service Fund	<u>36,222</u>
Total	<u>\$ 734,532</u>

**NOTE K - DEFICIT FUND BALANCES**

The following funds ended the fiscal year with excess expenditures over revenues. The amounts were offset by transfers from other funds.

Debt service	\$ ( 291,259)
Special revenue fund	\$ ( 9,725)

## Supplemental Schedules

**SCIENCE HILL INDEPENDENT SCHOOL DISTRICT  
REQUIRED SUPPLEMENTAL SCHEDULE OF THE DISTRICT'S  
PROPORTIONATE SHARE OF THE CERS NET PENSION LIABILITY  
Last Three Fiscal Years**

	<u>2014</u>	<u>2015</u>	<u>2016</u>
District's proportion of the net pension liability	0.022076%	0.022076%	0.021167%
District's proportionate share of the net pension liability	\$ 810,000	\$ 716,000	\$ 910,078
District's covered employee payroll	\$ 504,940	\$ 492,071	\$ 495,931
District's share of the net pension liability as a percentage of its cover employee payroll	160.42%	145.51%	183.51%
Plan Fiduciary net position as a percentage of the total pension liability	61.22%	66.80%	59.97%

**Note:**

The amounts presented for each fiscal year were determined as of June 30. The schedule is intended to show information for 10 years. Additional years will be added as they become available.



**SCIENCE HILL INDEPENDENT SCHOOL DISTRICT**  
**REQUIRED SUPPLEMENTAL SCHEDULE OF CONTRIBUTIONS TO CERS**  
**Last Three Fiscal Years**

	<u>2014</u>	<u>2015</u>	<u>2016</u>
Contractually required employer contribution*	\$ 95,373	\$ 86,949	\$ 84,606
Contributions made for required employer contribution	\$ (95,373)	\$ (86,949)	\$ (84,606)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered employee payroll	\$ 504,940	\$ 492,071	\$ 495,931
Employer contributions as a percentage of covered-employee payroll	18.89%	17.67%	17.06%

**Note:**

The amounts presented for each fiscal year were determined as of June 30. The schedule is intended to show information for 10 years. Additional years will be added as they become available.

**SCIENCE HILL INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - CERS**  
**June 30, 2016**

**Changes of benefit terms** - There have been no changes in benefit terms during the period covered by the required supplementary information (2015).

**Changes of assumptions** - There have been no changes of assumptions during the period covered by the required supplementary information (2015).

**Period covered by the required supplementary information** - GASB Statement No. 68, "Accounting and Financial Reporting for Pensions", an amendment of GASB Statement No. 27 requires the accompanying supplementary information to report on trend information for the previous ten fiscal years if the information is available. The District has only been provided this information for three fiscal year and will expand this supplementary information in future financial statements to cover additional periods as they become available.

**SCIENCE HILL INDEPENDENT SCHOOL DISTRICT  
REQUIRED SUPPLEMENTAL SCHEDULE OF THE DISTRICT'S  
PROPORTIONATE SHARE OF THE KTRS NET PENSION LIABILITY  
Last Three Fiscal Years**

	<u>2014</u>	<u>2015</u>	<u>2016</u>
District's proportion of the net pension liability	0.000000%	0.000000%	0.000000%
District's proportionate share of the net pension liability	\$ -	\$ -	\$ -
Commonwealth's proportionate share of the net pension liability associated with the District	\$ 12,648,700	\$ 14,162,771	\$ 17,247,828
District's covered employee payroll	\$ 1,929,009	\$ 1,862,837	\$ 1,833,139
District's share of the net pension liability as a percentage of its cover employee payroll	0.00%	0.00%	0.00%
Plan Fiduciary net position as a percentage of the total pension liability	45.59%	42.49%	35.22%

**Note:**

The amounts presented for each fiscal year were determined as of June 30. The schedule is intended to show information for 10 years. Additional years will be added as they become available.

**SCIENCE HILL INDEPENDENT SCHOOL DISTRICT  
REQUIRED SUPPLEMENTAL SCHEDULE OF CONTRIBUTIONS TO KTRS  
Last Three Fiscal Years**

	<u>2014</u>	<u>2015</u>	<u>2016</u>
Contractually required employer contribution*	\$ 27,798	\$ 40,249	\$ 52,595
Contributions made for required employer contribution	\$ (27,798)	\$ (40,249)	\$ (52,595)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered employee payroll	\$ 1,929,008	\$ 1,862,837	\$ 1,833,139
Employer contributions as a percentage of covered-employee payroll	1.44%	2.16%	2.87%

**Note:**

The amounts presented for each fiscal year were determined as of June 30. The schedule is intended to show information for 10 years. Additional years will be added as they become available.

**SCIENCE HILL INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - KTRS**  
**June 30, 2016**

**Changes of benefit terms** – There have been no changes in benefit terms during the period covered by the required supplementary information (2015).

**Changes of assumptions** – There have been no changes of assumptions during the period covered by the required supplementary information (2015).

**Period covered by the required supplementary information** – GASB Statement No. 68, "Accounting and Financial Reporting for Pensions", an amendment of GASB Statement No. 27 requires the accompanying supplementary information to report on trend information for the previous ten fiscal years if the information is available. The District has only been provided this information for three fiscal year and will expand this supplementary information in future financial statements to cover additional periods as they become available.

**SCIENCE HILL INDEPENDENT SCHOOL DISTRICT  
BUDGETARY COMPARISON SCHEDULE FOR GENERAL FUND  
for the year ended June 30, 2016**

	FINAL BUDGET	ACTUAL	VARIANCE W/FINAL BUDGET POSITIVE (NEGATIVE)
Revenues			
Taxes	\$ 600,102	\$ 657,040	\$ 56,938
Earnings on investment	3,000	2,904	(96)
State sources	2,591,439	2,571,677	(19,762)
Federal sources	-	-	-
Other sources	35,000	78,325	43,325
	<hr/>	<hr/>	<hr/>
Total revenues	3,229,541	3,309,946	80,405
Expenditures			
Instructional	2,053,972	1,971,156	82,816
Student support services	193,300	209,546	(16,246)
Staff support services	96,449	100,265	(3,816)
District administration	346,571	305,914	40,657
School administration	126,242	124,546	1,696
Business support services	120,557	118,346	2,211
Plant operation/maintenance	414,739	316,847	97,892
Student transportation	118,993	86,399	32,594
Debt service	23,323	23,323	-
Contingency	413,620	-	413,620
	<hr/>	<hr/>	<hr/>
Total expenditures	3,907,766	3,256,342	651,424
Excess of revenues over expenditures	(678,225)	53,604	731,829
Other financing sources (uses)			
Operating transfers in	-	63,729	63,729
Operating transfers out	(8,000)	(9,725)	(1,725)
	<hr/>	<hr/>	<hr/>
Total other financing sources (uses)	(8,000)	54,004	62,004
Net increase (decrease) in fund balance	(686,225)	107,608	637,588
Fund balance July 1, 2015	614,300	682,337	68,037
	<hr/>	<hr/>	<hr/>
Fund balance June 30, 2016	\$ (71,925)	\$ 789,945	\$ 861,870
	<hr/>	<hr/>	<hr/>

**SCIENCE HILL INDEPENDENT SCHOOL DISTRICT  
BUDGETARY COMPARISON - SPECIAL REVENUE  
for the year ended June 30, 2016**

	FINAL BUDGET	ACTUAL	VARIANCE W/FINAL BUDGET POSITIVE (NEGATIVE)
<b>REVENUES</b>			
State sources	\$ 234,400	\$ 235,764	\$ 1,364
Federal sources	306,602	218,571	(88,031)
Total revenues	541,002	454,335	(86,667)
<b>EXPENDITURES</b>			
Instructional	337,369	279,645	57,724
Student support services	109,292	73,357	35,935
Staff support services	1,019	1,043	(24)
Business support services	11,489	11,594	(105)
Student transportation	49,128	57,676	(8,548)
Community services	40,705	40,745	(40)
Total expenditures	549,002	464,060	84,942
Excess (deficit) of revenues over expenditures	(8,000)	(9,725)	(1,725)
Other financing sources (uses):			
Operating transfers out	8,000	9,725	(1,725)
Operating transfers in			-
Total other financing sources (uses)	8,000	9,725	-
Net change in fund balance			-
Fund balance July 1, 2014			
Fund balance June 30, 2015	\$ -	\$ -	\$ -

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT  
Science Hill, Kentucky

STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCES  
SCHOOL ACTIVITY FUNDS  
June 30, 2016

	Beginning Cash July 1, 2015	Receipts	Disbursements	Ending Cash June 30, 2016
8th Grade	565	11,122	11,687	-
Academic Team	119	197	216	100
Archery	1,372	13,071	10,587	3,856
Baseball Boosters	210	4,276	4,278	208
Beta	932	1,685	1,887	730
Boys and girls basketball	1,948	9,619	7,128	4,439
Boys Basketball Boosters	881	4,437	4,800	518
Cheerleaders	18	2,445	2,443	20
Dance	378	532	788	122
Drama and annuals	286	4,497	2,622	2,161
General fund	5,475	10,827	12,947	3,355
Girls Basketball Boosters	294	1,455	1,640	109
Music	194	216	-	410
Pepsi	1,428	791	304	1,915
Softball Boosters	185	1,700	1,610	275
Student Council	291	-	137	154
Field trips	41	4,037	4,078	-
Soccer Boosters	384	32	416	-
Golf	-	2,075	723	1,352
		73,014	68,291	
Inter-fund transfers	-	1,582	1,582	-
Totals	\$ 15,001	\$ 74,596	\$ 69,873	\$ 19,724



**BARRY D. DAULTON, CPA, PSC**  
**POST OFFICE BOX 1424**  
**SOMERSET, KENTUCKY 42502**  
**(606) 679-9344**

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT  
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT  
AUDITING STANDARDS**

Kentucky State Committee for School District Audits  
Members of the Board of Education  
Science Hill Independent Schools  
Science Hill, Kentucky 42553

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and in accordance with *Audits of States, Local Governments, and Non-Profit Organizations*, and the audit requirements prescribed by the Kentucky State Committee for School Districts Audits Kentucky Public School Districts' Audit Contract and Requirements, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Science Hill Independent Schools as of and for the year ended June 30, 2016, which collectively comprise the District's basic financial statements and have issued my report thereon dated September 19, 2016.

**Internal Control over Financial Reporting**

In planning and performing my audit of the financial statements, I considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, I do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. In addition, the results of my tests disclosed no instances of material noncompliance of specific state statutes or regulations identified in Kentucky Public School Districts' Audit Contract and Requirements. There were additional matters communicated to the auditee in the management letter.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

***Barry D. Daulton, CPA, PSC***

Somerset, Kentucky  
September 19, 2016

**SCIENCE HILL INDEPENDENT SCHOOL DISTRICT  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
June 30, 2016**

There are no prior audit findings.

**Barry D. Daulton, CPA, PSC**  
423 East Mount Vernon Street  
P.O. Box 1424  
Somerset, Kentucky 42502  
(606) 679-9344

## **MANAGEMENT LETTER**

September 19, 2016  
Superintendent and Members of the Board of Education  
Science Hill Independent School District  
Science Hill, Kentucky 42553

In planning and performing my audit of the financial statements of Science Hill Independent School District for the year ended June 30, 2016, I considered the District's internal control in order to determine my auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

### **Current Year Conditions**

I have reviewed the status of the management comments from the previous year. They have been appropriately addressed.

I have reported on the District's internal control in my report dated September 19, 2016. This letter does not affect my report dated September 19, 2016 on the financial statements of Science Hill Independent School District. I wish to thank the personnel for their support and assistance during the audit.

This report is intended solely for the information and use of the Board and management of Science Hill Independent School District.

Sincerely,  
**Barry D. Daulton, CPA, PSC**